92-1682

No. 92-_____

Supreme Court, U.S.
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IN THE
SUPREME COURT OF THE
UNITED STATES
OCTOBER TERM, 1992

EARL JASON LARISCEY,

Petitioner,

v.

THE UNITED STATES,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Government violates the Takings Clause when it effects the disclosure of a trade secret and thereafter uses the trade secret without providing just compensation, claiming the property is not protectable because it has been disclosed?

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Petitioner, Earl Jason Lariscey, respectfully submits this petition for a writ of certiorari to the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The order of the United States Court of Appeals for the Federal Circuit In Banc is reported at 981 F.2d 1244. 39A. The opinion of the Court of Appeals panel is reported at 949 F.2d 1137. 18A. The opinion of the Claims Court is reported at 20 Cl. Ct. 385. 2A.

JURISDICTION

The Court of Appeals opinion and judgment were entered on November 15, 1991. 18A. On January 8,

1992, the Court of Appeals denied respondent's petition for rehearing (33A); on April 30, 1992, it accepted respondent's suggestion for rehearing in banc (36A); on December 28, 1992, it entered an order on rehearing in banc (39A); and on March 3, 1993, it denied petitioner's petition for rehearing. 41A. On March 9, 1993, the Chief Justice extended the time within which to file a petition for writ of certiorari to and including April 27, 1993. The Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

RELEVANT CONSTITUTIONAL AND OTHER PROVISIONS

The relevant provisions of the Fifth Amendment of the Federal Constitution (44A), the Restatement of Torts (46A) and the Bureau of Prisons regulations (50A) are reprinted in the Appendix.

STATEMENT OF THE CASE

This case presents the clash of privacy and property interests foreshadowed, but not resolved, in *Dow Chemical Co. v. United States*, 476 U.S. 227 (1986). In *Dow*, the Government had obtained, through aerial surveillance, a company's trade secrets. The Court, addressing a concern that the Government could thereafter use the trade secrets without just compensation or disclose them, made clear that "the right to be free of [Governmental] appropriation of trade secrets is protected by law." *Id.* at 232. The Court left unanswered, however, the question of which law could protect a trade secret seized in the manner at issue in *Dow*, suggesting only that the Takings Clause "might," and the

Trade Secrets Act "appear[ed]" to, provide the necessary protection. *Id.* at 232, 234 n.2.

The Takings Clause issue is now squarely presented. In this case, the Government obtained, through its surveillance and control of Mr. Lariscey (a federal prisoner), a jig and cutting process he developed; after requiring a demonstration of the process, which was successful, the Government confiscated it and put it to use in the production of helmets for the U.S. Armed Forces. 3A-4A. The Claims Court summarily dismissed Mr. Lariscey's Takings Clause claim, however, holding that the very disclosures of his process effected by this surveillance and control, particularly the demonstration, had extinguished his property right -- *i.e.*, his trade secret. 9A-12A. A unanimous panel of the Federal Circuit reversed and entered judgment *sua sponte* for Mr. Lariscey, holding that he had taken "precautions to protect his information from public disclosure [that] were reasonable under the circumstances" (26A) and that the Government, which "knew that Lariscey had built this device and deemed it to be his" (25A), could not simply take and use the trade secret for its own purposes without just compensation. 28A. At the request of the Government, the Federal Circuit granted rehearing in banc, but after briefing and argument the court became deadlocked, splitting 5-5. 39A. Consequently, the Claims Court judgment was affirmed without opinion.

The Claims Court opinion will have a broad and chilling effect on trade secret rights nationally. Put simply, under the Claims Court opinion the disclosure of a trade secret to the Government, even if involuntary, will extinguish the trade secret and, with it, any possible Takings Clause remedy. The opinion not only eviscerates the trade

secret rights of all federal prisoners, none of whom can keep their property "secret" from prison officials, but will substantially weaken the property rights of any person or business over whom the Government has substantial control. This is particularly true for government contractors and regulated industries, which will now face the very real risk that the Government may use, without compensation, any trade secret submitted to it, claiming that disclosure of the trade secret has extinguished its protectability. Further, any such company may have its trade secret seized in the course of a criminal investigation, with the Government thereafter free, under the Claims Court opinion, to use it for any purpose without just compensation.

This cannot be the law. While the Court has not addressed the precise issue presented here, both *Dow*, 476 U.S. at 232, and *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1010-13 (1984), indicate that the disclosure of a trade secret to the Government does not, *ipso facto*, eliminate the holder's property rights in it. This basic understanding is found in the decisions of the Second and Fifth Circuits and the Comptroller General. Each is consistent with the rule applied by the Federal Circuit panel, *viz*: where the Government is "fairly apprised that . . . information [is] deemed proprietary" it is not "authoriz[ed] . . . to take and use [the information] for its own purposes" without providing just compensation. 25A. Even in the prison context, the rule is that a prisoner's lack of privacy does not defeat his right to just compensation for property taken by prison officials. *Hudson v. Palmer*, 468 U.S. 517, 533-35 (1984).

But the law of the Claims Court is now precisely to the contrary. This is no small matter, for the Claims Court

has *exclusive* jurisdiction to hear Takings Clause actions exceeding $10,000.[1] Moreover, the Federal Circuit, which sits to ensure "national uniformity" in the law,[2] is equally divided and, consequently, has been unable to resolve this important question. As a result, review by this Court is imperative to settle the issue left unresolved by *Dow*.

There is no dispute as to the material facts in the record (7A; 19A),[3] which are summarized below:

A. *The Parties*

Petitioner, Earl Jason Lariscey, was at all times relevant here an inmate at the federal correctional institute at Bastrop, Texas. Lariscey Aff. at 1.[4] There, he was "required to participate in [a] work program" (52A) and was assigned to work for Federal Prison Industries, Inc. ("UNICOR"). Lariscey Aff. at 3. "[A] federal prisoner worker enjoys no 'privileges' of employment"; rather, "the work they perform involves *involuntary servitude*." 12 Op.

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[1] *Compare* 28 U.S.C. § 1491 *with* 28 U.S.C. § 1346.

[2] S. Rep. No. 275, 97th Cong., 2nd Sess. 2 (1981), *reprinted in* 1982 U.S. Code Cong. & Admin. News 12.

[3] Moreover, because the Claims Court granted summary judgment for the Government, the "inferences to be drawn from the underlying facts . . . must be viewed in the light most favorable to the party opposing the motion" -- *i.e.*, Mr. Lariscey. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986). The Government sought to "proffer" certain additional non-record facts in its brief on rehearing in banc (Brief of the United States at 5-7), but the proffer has no bearing here, for it was not before the Claims Court.

[4] "Lariscey Aff." refers to Mr. Lariscey's Affidavit, filed with his "Opposition to the Government's Motion for Dismissal and for Summary Judgment" on Aug. 18, 1989 in the Claims Court.

Off. Legal Counsel 255, 258-59 (1988) (emphasis in original).

UNICOR is a self-supporting government corporation, created to "allow [inmates] the opportunity to acquire the knowledge, skill, and work habits which will be useful when released from the institution." 50A. With operations in 20 states, UNICOR is engaged in the production, *inter alia*, of textiles, machinery and helmets for the U.S. Armed Forces. Appellant's Motion to Expedite, Exh. B (filed June 29, 1992). Federal departments and agencies are required to purchase, "at [up to] current market prices," UNICOR products. 42 U.S.C. § 4124(a). UNICOR is required to "diversify" its product base so that "no single private industry shall be forced to bear an undue burden of competition" from UNICOR. *Id.* § 4122(b)(1). "There is no requirement that [UNICOR] pay inmates for work in an industrial assignment." 50A.

B. *The Kevlar-Cutting Process*

Kevlar is a "high-strength" material that forms the protective shield of a military helmet. 19A; Lariscey Aff. at 1. From 1978 to 1986, UNICOR contracted with the Gentex Corporation to cut the Kevlar, with UNICOR assembling the finished helmet at its Bastrop facility. *Id.* at 1. In 1986, UNICOR severed its relationship with Gentex and decided to cut the Kevlar in-house. *Id.*

UNICOR thereafter tested several in-house cutting methods, such as a die and press (which cost $55,000), a sonic knife (which cost $35,000), and two laser knives (at $350,000 per knife). Each process failed. *See* 19A. Lariscey Aff. at 2-3.

C. *The Trade Secret*[5]

Meanwhile, Mr. Lariscey, working alone in his cell, began developing a model jig and cutting process for the Kevlar. Lariscey Aff. at 3. With scrap materials from the shop floor and with guidance from relatives in the manufacturing business, Mr. Lariscey developed a process that allowed the Kevlar to be cut in successively smaller pieces, as moved from jig to jig, until the desired shape was attained.[6] Mr. Lariscey developed this process "in an open cell without privacy" where he could not "hide" his device or otherwise keep it private from UNICOR officials. *Id.* at 4. The Claims Court found it undisputed that "secrecy was nonexistent" (7A) and that "prison officials knew [Mr. Lariscey] was developing the jig." 4A. UNICOR regarded Mr. Lariscey's efforts as amusing, however, calling him "Fred Flintstone" and referring to his models as "rabbit boxes." Lariscey Aff. at 4.

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[5] Under the Restatement of Torts, which was adopted in Texas (9A), a trade secret is "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it," including "a process of manufacturing." 46A. The holder of a trade secret must maintain "substantial" secrecy, not absolute secrecy, *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 276 (Tex. Ct. App. 1988), and need not operate his own business. *Hyde Corp. v. Huffines*, 314 S.W.2d 763 (Tex. 1958), *cert. denied*, 358 U.S. 898 (1958) (government employee). Under certain circumstances, disclosure of a trade secret extinguishes the property right. *See* 47A; *Monsanto*, 467 U.S. at 1011.

[6] The instructions and diagrams detailing this process were filed with the Claims Court.

D. *The "Taking"*

In December 1986, the Department of Defense ("DOD") was scheduled to inspect UNICOR's cutting process to determine whether it met DOD specifications and, if so, whether to extend UNICOR's contract for helmet production. Lariscey Aff. at 4. On the eve of this inspection, UNICOR, still without a workable cutting process, turned to Mr. Lariscey. The associate warden and a UNICOR shop foreman "directed" Mr. Lariscey to demonstrate his invention (*id.* at 4), and assuming he had "no choice but to submit my idea to the government for testing and evaluation" (*id.* at 5), he complied. The demonstration was successful and UNICOR, after converting Mr. Lariscey's wooden jig into metallic form, placed his cutting process into operation. *Id.* at 5.[7]

Subsequent to the taking, UNICOR's shop foreman recommended Mr. Lariscey for an incentive award (*see* 28 C.F.R. § 545.60-.64), stating:

> inmate Lariscey has come up with several ideas and inventions that have been placed and are to this date being used in the daily cutting operation. . . . Although I myself cannot put an exact dollar value on the

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[7] Mr. Lariscey stated his intent to patent the cutting process, but a UNICOR machine shop superintendent informed Mr. Lariscey that it "no longer belonged" to him. Lariscey Aff. at 5. Mr. Lariscey also contacted Gentex Corp. to discuss selling his invention, but UNICOR confiscated the letter and placed Mr. Lariscey in solitary confinement for "conducting a business." *Id.* at 6; *see* Gov't MSJ, App. at 11, 16-23. "Gov't MSJ" refers to the "Government's Motion for Dismissal and for Summary Judgment," filed on Feb. 29, 1988 in the Claims Court.

> savings that this inmate has made for UNICOR I would estimate it to be in the thousands.

Gov't MSJ, App. at 27. UNICOR denied the request and refused in any way to compensate Mr. Lariscey for use of his process. Lariscey Aff. at 6.

E. ***This Action***

Frustrated by the Government's refusal to provide just compensation, Mr. Lariscey filed this action *pro se* in the Claims Court. The court granted summary judgment for the Government, holding that, despite the Government's undisputed control over Mr. Lariscey, the very disclosures of his process effected by such control had extinguished his property interest -- *i.e.*, his trade secret. 9A-10A. The Claims Court acknowledged Mr. Lariscey had been directed by the Government to demonstrate his process,[8] but found this fact immaterial because Mr. Lariscey did not "negotiate" an agreement with the Government limiting its rights. 11A.[9] Moreover, the court relied on statements by

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[8] The Claims Court recited that Mr. Lariscey was "asked" to demonstrate his process (4A), but Mr. Lariscey's affidavit, which is the only record evidence on the point, states that he was "directed" to do so. Lariscey Aff. at 4. The Government has never contended Mr. Lariscey had the option to refuse a demonstration. *Cf.* 28 C.F.R. § 541.13 (Act No. 307) ("refusing to obey an order of any staff member" is a punishable act).

[9] The Claims Court also held that, even assuming a trade secret existed, the Government had a "shop right" to use it. 12A-14A. The Government has since abandoned its defense of this holding, conceding there is a material factual issue as to whether Mr. Lariscey "consented" to the Government's use of his process. *See* Tape of Oral Argument (Fed. Cir. Dec. 11, 1992) (MR. RICE: "on the undisputed facts before the Court . . . there would be a material issue [of fact] on the

prison officials that Mr. Lariscey "no longer owned the jig" as *supporting* its holding that no taking of property had occurred. 11A.

A unanimous panel of the Federal Circuit reversed and, finding Mr. Lariscey's factual allegations to be "generally undisputed" (19A), entered judgment *sua sponte* for Mr. Lariscey.[10] The court held that Mr. Lariscey's circumstances did not preclude his Takings Clause action, finding on the undisputed factual record that a trade secret had been properly maintained and thereafter taken by the Government without just compensation. 26A, 29A. Further, as to the required demonstration of Mr. Lariscey's cutting process, the court held that "[t]he construction and demonstration of a prototype does not of itself forfeit the trade secret" (25A); rather, the Government, which "knew that Lariscey had built this device and deemed it to be his," was not "authoriz[ed] . . . to take and use the subject of the demonstration for its own purposes." 25A. Finally, the court found that "[e]ven without giving weight to the exigencies of the prison environment insofar as it affected Lariscey's negotiating posture, the precautions to protect his information from public disclosure were reasonable under the circumstances that prevailed." 26A.

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consent issue and for that reason we are no longer asserting that the Claims Court opinion should be upheld on shop right grounds"). As indicated *supra* n. 8, there is *no* record evidence of consent.

[10] Three years earlier the court had noted Mr. Lariscey's claims were made "without significant contradiction" by the Government. *Lariscey v. United States*, 861 F.2d 1267, 1268 (Fed. Cir. 1988).

The Government suggested rehearing in banc, arguing the panel decision had "far-reaching implications."[11] The Federal Circuit accepted the suggestion, but split 5-5 on the issue and failed to render an opinion. 39A. It thereby affirmed (by default) the Claims Court judgment. Mr. Lariscey suggested rehearing, but the suggestion was denied. 41A.

REASONS FOR GRANTING THE PETITION

1. The Claims Court opinion will have a broad and destructive effect on the trade secret rights of persons and businesses nationally. The opinion means that the disclosure of a trade secret to the Government, even if involuntary, will extinguish the trade secret and permit the Government to use it without providing just compensation. The opinion not only eviscerates the trade secret rights of all federal prisoners,[12] but will substantially weaken the

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[11] Government's Motion for Enlargement of Time in Which to File Petition for Rehearing at 3 (filed Nov. 26, 1991). In addition, the Solicitor General argued the "issue is a matter of substantial importance to the Bureau of Prisons." Application for an Extension of Time Within Which to File a Petition for Writ of Certiorari at 2, *United States v. Lariscey*, U.S. No. A-721, October Term, 1991 (filed Mar. 27, 1992).

[12] A prisoner cannot keep property "secret" from prison officials in the sense used by the Claims Court, for a prisoner can possess only that property "which is issued while the inmate is in custody, which the inmate purchases in the institution commissary, or which is approved by staff to be mailed to, or otherwise received by an inmate." 50A; *see also* 51A. While the Government has argued that the Claims Court opinion "was limited to Lariscey's factual assertions" (Response of United States to Suggestion for Rehearing In Banc at 3 n.2) (filed Feb. 9, 1993), this is unconvincing. The facts asserted by Mr. Lariscey did

property rights of any person or company over whom the Government has substantial control (*e.g.*, members of the U.S. military, government employees, government contractors, and regulated companies). The opinion is particularly damaging to government contractors and regulated industries, for these companies are regularly required to submit their proprietary data to the Government, *inter alia*, to bid for DOD contracts (*see infra* n. 18), justify their rates before economic regulatory agencies,[13] or obtain approval to sell a product. *See Monsanto*, 467 U.S. at 994-96. Moreover, any such company could have its trade secret seized in a criminal investigation, with the Government thereafter free, under the Claims Court opinion, to use it for any purpose without just compensation.

This is the very result "fear[ed]" in *Dow Chemical Co. v. United States*, 476 U.S. 227, 234 n.2 (1986). In *Dow*, the Court held that the owner of a chemical manufacturing plant had no legitimate expectation of privacy from aerial photography of, *inter alia*, the company's trade secrets. *Id.* at 239. Consequently, the Government could, and did, seize the trade secrets lawfully under the Fourth Amendment. *Id.* at 232. However, responding to the "fear that EPA might disclose [the] trade secrets" (*id.* at 234 n.2) or put them to public use, the Court made clear that "the right to be free of [Governmental] appropriation of trade secrets is protected by law." *Id.* at 232. But the Court left unanswered which law could protect a trade secret seized as in *Dow*, suggesting only that the Takings Clause of the Fifth

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not materially differ from any federal prisoner -- *i.e.* he lacked privacy. *See Hudson*, 468 U.S. at 526.

[13] *See Western Systems Power Pool*, 59 Fed. Energy Reg. Comm'n Rep. (CCH) ¶ 61,249 (1992).

Amendment "might" (*id.* at 232),[14] and the Trade Secrets Act and Freedom of Information Act "appear[ed]" to, provide the necessary protection. *Id.* at 234 n.2.

The Takings Clause issue is now squarely presented. Mr. Lariscey, like the manufacturer in *Dow*, had no reasonable expectation of privacy from Governmental surveillance or a resulting seizure of his property, *Hudson*, 468 U.S. at 526, and consequently, as in *Dow*, his trade secret could be (and was) seized by the Government. Here, however, there plainly was a subsequent public use, as Mr. Lariscey's cutting process was placed into operation in the Government's production of U.S. military helmets. The Claims Court nonetheless held that Mr. Lariscey's property was not protectable under the Takings Clause because, as in *Dow*, it had been disclosed to the Government.[15]

Accordingly, the Federal courthouse door is now closed to persons or companies which have their trade secrets appropriated in like manner, for it is the Claims Court which has exclusive jurisdiction over Takings Clause actions exceeding $10,000. *See supra* n. 1. Moreover, the

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[14] The Court was not required to decide the Takings Clause question because Dow's takings claim had been dismissed without prejudice by the district court, but not refiled. *Id.* at 232.

[15] Moreover, under the Claims Court opinion the Trade Secrets Act and Freedom of Information Act will *not*, as the Court in *Dow* expected, provide adequate protection against the disclosure of a trade secret. These laws do not apply if, as the Claims Court held, a trade secret is extinguished by disclosure to the Government. See, respectively, 18 U.S.C. § 1905 (disclosure of trade secrets a criminal offense); 5 U.S.C. § 552(b)(4) (disclosure of trade secrets not required under FOIA); and *Monsanto*, 467 U.S. at 1003 (Takings Clause applies where trade secret is confiscated).

Federal Circuit, which sits to ensure "nationwide uniformity" in the law (*see supra* n. 2), is equally divided and could not provide guidance on this important question. Only this Court can do so and settle an issue affecting the property rights of persons and businesses nationally.

2. The Claims Court opinion cannot be reconciled with the principles underlying the Court's Takings Clause opinions.

a. While the precise issue presented here has not been decided by the Court, both *Dow* and *Monsanto* indicate that the disclosure of a trade secret to the Government does not, *ipso facto*, defeat the holder's property interest in it. Rather, in *Dow* the Court suggested that if the Government used a trade secret obtained in Governmental surveillance, just compensation would be required. 476 U.S. at 232.[16] In *Monsanto*, the Court held that the disclosure of a trade secret to the Government, even if voluntary, would not preclude a Takings Clause action if the Government's subsequent use of it was inconsistent with reasonable expectations.[17]

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[16] The Court in *Dow* stated that a Takings Clause action might lie "[if] the Government were to use the photographs [that revealed trade secrets] to compete with Dow." *Id.* at 232. As *Monsanto* made clear, however, the Takings Clause attaches so long as a trade secret is put to public use. 467 U.S. at 1014-16. This is consistent with Restatement of Torts § 757, under which use "to compete" is not a predicate to liability. Liability attaches broadly to any person "who discloses or uses another's trade secret." 46A.

[17] In *Monsanto*, submission of the data was "voluntary" (*i.e.*, "in exchange for the economic advantages of a registration," *id.* at 1007) and thus the issue was whether disclosure by EPA of the data "would frustrate Monsanto's reasonable . . . expectation with respect to its

Consistent with *Dow* and *Monsanto* are the holdings of the Second and Fifth Circuits and the Comptroller General that the disclosure of a trade secret to the Government does not, by itself, extinguish a person's property interest in it.[18] These decisions are consistent with the principle enunciated by the Federal Circuit panel, *viz*: where the Government is "fairly apprised that . . . information [is] deemed proprietary" it is not "authoriz[ed] . . . to take and use [the information] for its own purposes. Such unauthorized use is no more justified than the procurement of the secret by improper means." 25A. Particularly analogous is *In re*

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control over the use and dissemination of the data it had submitted." *Id.* at 1011. *See Nollan v. California Coastal Commission*, 483 U.S. 825, 833 n.2 (1987).

[18] In *Kramer v. Department of the Army*, 653 F.2d 726 (2d Cir. 1980), the Second Circuit rejected the contention that a trade secret could not be established if the secret "was required to be disclosed to the government" (*id.* at 731, Timbers, J., dissenting), holding instead that an action would lie if plaintiff could show that "the Government subsequently made unauthorized use of that information." *Id.* at 730. Similarly, in *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113 (5th Cir. 1991) *aff'd on other grounds*, 112 S. Ct. 2753 (1992), the Fifth Circuit held that "[t]he fact that Taco Cabana was required to file" the trade secret with the local Government "does not eviscerate its legitimate proprietary rights." *Id.* at 1124. *See In re Chromalloy Division*,56 Comp. Gen. 538, 542-43 (1977); *In re Secretary of the Air Force*, 42 Comp. Gen. 346 (1963). Further, *In re Connor and Cuneo*, 53 Comp. Gen. 161, 166 (1973) noted Defense Department policy providing that "unsolicited proposals which are submitted without restrictive legend are to be marked by the agency and its contents not disclosed or used for any purpose other than the proposal's evaluation." *See also Curtiss-Wright Corp. v. Edel-Brown Tool & Die Co.*, 407 N.E.2d 319 (Mass. 1980) (misappropriation claim upheld where a Navy contracting officer gave Curtiss-Wright's trade secret to one of its competitors, which used the trade secret to win a Navy contract).

Chromalloy Division, where the Comptroller General stated that a company's disclosure of its repair process to Government representatives during a plant visit did not "defeat[]" the company's proprietary rights in it, even where the Government later used the process "for evaluation and testing purposes" and "even assuming" the company did not indicate that the "repair process . . . was confidential" during the plant visit. 56 Comp. Gen. 538, 542-43 (1977).[19] As the Federal Circuit panel indicated, "acquiescence in demonstration to the intended user [does not mean] acquiescence in free use if the demonstration is successful." 28A.

The Government has argued before the Federal Circuit, however, that no taking occurred here because a "prisoner's underlying rights to possess property . . . have been altered by federal statutory law." Brief of United States at 9 (filed Sept. 30, 1992). But this argument does not materially differ from the Government position rejected in *Monsanto*. In *Monsanto* the Environmental Protection Agency ("EPA") had required the submission of certain data (which Monsanto regarded as trade secrets) as part of its pesticide registration program. 467 U.S. at 992-96. The Government disputed the application of the Takings Clause, arguing that no taking had occurred because its regulations requiring such disclosure had extinguished Monsanto's property right. *Id.* at 1012. Characterizing this contention and rejecting it, the Court stated:

> EPA encourages us to view the situation not as a taking of Monsanto's property

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[19] The Comptroller General, however, denied the owner's protest on other grounds.

> interest in the trade secrets, but as a "pre-emption" of whatever property rights Monsanto may have had in those trade secrets . . . . This argument proves too much. If Congress can preempt state property law in the manner advocated by EPA, then the Taking Clause has lost all vitality.

Id. at 1012.[20] *See also Preseault v. ICC*, 494 U.S. 1, 22 (1990) (O'Connor, J., concurring) ("Any other conclusion would convert the ICC's power to pre-empt conflicting state regulation of interstate commerce into the power to pre-empt the rights guaranteed by state property law, a result incompatible with the Fifth Amendment.").[21]

In *Monsanto*, as here, to permit the Government to avoid the Takings Clause with such circularity would allow it "by *ipse dixit*, [to] transform private property into public property without compensation . . . . This is the very kind of thing that the Takings Clause of the Fifth Amendment was meant to prevent." *Webb's Fabulous Pharmacies, Inc. v. Beckwith*, 449 U.S. 155, 164 (1980).

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[20] When the Government confiscated Mr. Lariscey's jig and cutting process, it did not contend that his possession of it conflicted with the objectives of prison administration (because, of course, it *contributed* to prison helmet production), nor could his ideas (*i.e.*, incorporeal property) have been properly confiscable.

[21] Moreover, as the Court stated more than 100 years ago in *United States v. Palmer*, 128 U.S. 262 (1888): "It has been the general practice, when inventions have been made which are desirable for government use either for the government to purchase them from the inventors, and use them as secrets of the proper department; or, if a patent is granted, to pay the patentee a fair compensation for their use." *Id.* at 271 (*quoting James v. Campbell*, 104 U.S. 356 (1882)).

b. The Claims Court opinion is wrongly decided even given the circumstances of a federal prisoner. "Prison walls do not form a barrier separating prison inmates from the protections of the Constitution." *Turner v. Safley*, 482 U.S. 78, 84 (1987); *accord Thornburgh v. Abbott*, 490 U.S. 401, 407 (1989). Rather, the Court has "insisted that prisoners be accorded those rights not fundamentally inconsistent with imprisonment itself or incompatible with objectives of incarceration." *Hudson v. Palmer*, 468 U.S. 517, 523 (1984). In particular, "[the] constitutional protections against the deprivation of private property do not abate at the time of imprisonment." *Id.* at 539 (O'Connor, J., concurring).

In *Hudson*, the Court addressed the particular privacy and property rights applicable in a prison setting. The Court held the Fourth Amendment does not apply in a prison setting because a prisoner does not have a legitimate expectation of privacy. 468 U.S. at 526. The Court held, however, that a prisoner's lack of privacy does *not* defeat his right to be compensated for a Governmental taking of his property. *Id.* at 533-35; *see id.* at 539 (O'Connor, J. concurring).[22]

The Government argued before the Federal Circuit that *Hudson* is distinguishable because the "threshold issue here

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[22] Under the Due Process Clause, a prisoner's property can be taken only if "common-law remedies [are] available [to] provide adequate compensation for [the prisoner's] property loss," *Hudson*, 468 U.S. at 534-35, or the "remedies provided could have fully compensated the [prisoner] for the property loss he suffered." *Parratt v. Taylor*, 451 U.S. 527, 544 (1981). These principles apply, *a fortiori*, to the Takings Clause. *See Hudson*, 468 U.S. at 539 (O'Connor, J., concurring).

. . . was whether Lariscey had any trade secret property to begin with." Response of United States to Suggestion for Rehearing In Banc at 6 (filed Feb. 9, 1993). This is precisely petitioner's point. Under the Claims Court opinion, a prisoner cannot under any circumstances create a protectable trade secret because the very disclosures of it required by law will always "extinguish" his property interest.

The Government also argued that to allow a person lacking privacy to maintain a trade secret action would "swallow[] the rule" that a trade secret must be kept "substantially" secret. Brief of United States at 15 (filed Sept. 30, 1992). This concern is unfounded. A ruling for petitioner in this case would only preclude the Government from using its surveillance and control over a person or company to appropriate valuable incorporeal property without just compensation.

CONCLUSION

If the Government can use its otherwise lawful authority to effect the disclosure of a trade secret, thereby claim that the trade secret has been extinguished, and thereafter use the trade secret without just compensation, "then the Takings Clause has lost all vitality." *Monsanto*, 467 U.S. at 1012.

For all the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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Washington, D.C. 20005

APPENDIX

CLAIMS COURT OPINION
[MAY 11, 1990]

IN THE UNITED STATES CLAIMS COURT

No. 587-87C

(Filed May 11, 1990)

EARL JASON LARISCEY,

Plaintiff,

versus

THE UNITED STATES,

Defendant.

OPINION

FUTEY, Judge:

This case is before the court on defendant's motion to dismiss and for summary judgment. Plaintiff, a prisoner, alleges that he made an invention and defendant used it without authorization. Plaintiff claims compensation pursuant to: (1) the Fifth Amendment taking clause and (2) an implied-in-fact contract theory. Defendant asserts that plaintiff has no property right in the invention. In the alternative, if a property right exists, defendant claims a shop right. Finally, defendant denies the existence of any implied-in-fact contract between the parties.

Statement of Facts

This case first came before this court on September 21, 1987. Subsequently, this court filed an Order that granted defendant's motion to dismiss, along with plaintiff's request

for leave to file an amended complaint. *Lariscey v. United States*, No. 587-87C, slip op. (Cl. Ct. Jan. 29, 1988). Since a statement of the facts in the case was made a part of that earlier order, they will only be supplemented here.

Plaintiff, an inmate in the Federal Corrections Institute at Bastrop, Texas, was employed there to assist in the manufacturing of helmets. This case arises from defendant's use of a jig and cutting process (jig), which plaintiff allegedly invented while employed cutting Kevlar[1] at the prison.[2]

The Federal Prison Industries, Incorporated (UNICOR), has manufactured helmets for the military at the Bastrop facility since 1978. From 1978 until the summer of 1986, UNICOR contracted the cutting of Kevlar to Gentex Corporation (Gentex). Apparently dissatisfied with Gentex's performance, UNICOR decided to bring the cutting process in-house. Various methods for cutting Kevlar were tested, all of which were determined to be inadequate.

During the last 3 months of 1986,[3] plaintiff claims that while employed in the prison, he conceived and designed a jig and cutting process to cut Kevlar using scrap materials

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[1] The record does not contain a description of what kevlar is; it is apparently a material used in the lining of helmets.

[2] The Federal Prison Industries, Incorporated (UNICOR), is a wholly owned government corporation. 31 U.S.C. § 9101(3)(D) (1982). UNICOR has the authority to employ prisoners under 18 U.S.C. § 4122(b) (1982). Plaintiff was employed to cut kevlar; his duties did not include research and development.

[3] Although plaintiff's amended complaint states that he invented the jig during the first 3 months of 1987, other documents from plaintiff suggest that this is in error.

from the shop floor.[4] It is undisputed that prison officials knew plaintiff was developing the jig. Plaintiff contends that he was unable to keep his design a secret since he was in an open cell.

A Department of Defense representative was scheduled to visit the Bastrop facility and inspect the cutting process sometime in December 1986. One week prior to the scheduled visit, the associate warden and plaintiff's foreman, asked plaintiff to demonstrate the jig, which plaintiff did. Plaintiff admits that he did not negotiate a confidentiality agreement with defendant, but contends that he expected to be compensated for the use of his invention. The expectation took the form of telling the superintendent of the plant, after the invention was tested, that plaintiff was in the process of obtaining a patent.[5] Defendant contends that there was no mention of compensation when the jig was demonstrated.

UNICOR began successfully using plaintiff's jig between January and March 1987. An outside contractor was brought in during that time to reproduce the jig in metal form. Sometime after UNICOR began using the jig, plaintiff made several modifications to it. On May 2, 1987, plaintiff's foreman submitted an incentive award recommendation on behalf of plaintiff. The record does not indicate that plaintiff ever received an award. Relations

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[4] Defendant contends that plaintiff also used shop facilities and received assistance from other inmates. Support for this assertion is found in plaintiff's solicitation letter in which he wrote: "Me and another inmate made the lay-up now used by UNICOR. We want to sell you the cutting process and the lay-up." See *infra* n.6.

[5] There is no evidence that a patent has ever been issued.

between plaintiff and UNICOR officials broke down, and plaintiff was reassigned to other duties.[6]

On September 21, 1987, plaintiff, proceeding *pro se*, filed suit in this court, alleging patent infringement and seeking the appointment of a patent attorney, as well as equitable relief. Defendant filed a motion to dismiss the complaint for lack of subject matter jurisdiction on October 23, 1987. On December 22, 1987, this court directed plaintiff to file a response to defendant's motion. Two responses in opposition were filed, dated January 11, 1988 and January 14, 1988, respectively.

By an unpublished order dated January 29, 1988, this court dismissed plaintiff's cause of action for patent infringement without prejudice, but allowed plaintiff to file an amended complaint. The amended complaint stated a claim for monetary damages under the taking clause of the Fifth amendment and breach of an implied-in-fact contract.[7]

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[6] The record indicates that plaintiff tried to sell the jig process to Gentex Corporation (Gentex), by means of a letter of solicitation dated "11-3-87", which favorably refers to the increase in production associated with defendant's use of the jig. The record indicates that subsequent disciplinary action was taken against plaintiff for "Unauthorized Use of Mail System."

[7] Under the area in plaintiff's amended complaint entitled "*AMOUNT IN DISPUTE*". plaintiff claims in part:

(1) Monies owed as of November 1, 1987; $300,000

From November 1, 1987, to January 1, 1988: $120,000

Total owed as of January 1, 1987; $420,000

The date, January 1, 1987, seems to be a mistake. The court believes that plaintiff actually meant January 1, 1988.

Defendant moved for summary judgment on both claims on February 29, 1988.

Meanwhile, on March 14, 1988, plaintiff filed a motion requesting the appointment of counsel, which was denied. Plaintiff appealed this decision, and on November 23, 1988, the Court of Appeals for the Federal Circuit affirmed the Claims Court's order. *Lariscey v. United States*, 861 F.2d 1267 (Fed. Cir. 1988).

Plaintiff eventually retained counsel on May 15, 1989, when Lewis B. Gardner agreed to represent plaintiff *pro bono*. On August 21, 1989, plaintiff filed a response in opposition to defendant's motion for summary judgment. Plaintiff argued that there were material facts in dispute which preclude the granting of summary judgment. Defendant filed a reply on December 18, 1989.

I.

Discussion

A. *Jurisdiction*

Jurisdiction over Fifth Amendment taking claims, such as plaintiff's, is proper in this court. *Golder v. United States*, 15 Cl. Ct. 513, 518 (1988); *see generally Atkins v. United States*, 214 Ct. Cl. 186, 556 F.2d 1028 (1977), *cert. denied*, 434 U.S. 1009 (1978). In addition, this court has jurisdiction over implied-in-fact contracts under 28 U.S.C. §1491 (1982). *Pacific Gas & Elec. Co. v. United States*, 3 Cl. Ct. 329, 338 (1983), aff'd, 738 F.2d 452 (Fed. Cir. 1984).

B. *Summary Judgment*

Summary judgment is appropriate where the pleadings raise no genuine dispute as to any material fact and, as a matter of law, the moving party is entitled to judgment.[8] RUSCC 56(c), *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247 (1986). The moving party bears the burden of establishing an absence of evidence to support the non-movant's case. *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 157 (1970). The party opposing the motion for summary judgment has the burden of showing sufficient evidence, not necessarily admissible, of a genuine issue of material fact in dispute. *Celotex Corp. v. Catrett*, 477 U.S. 317, 329 (1986). Any doubt over factual issues must be resolved in favor of the party opposing the summary judgment, *Litton Indus. Prods., Inc. v. Solid State Sys., Corp.*, 755 F.2d 158, 163 (Fed. Cir. 1985), to whom the benefit of all presumptions and inferences run. *H.F. Allen Orchards v. United States*, 749 F.2d 1571, 1574 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 818 (1985). However, the non-moving party must make a sufficient showing to establish the existence of every essential element of the case and may not rely on the mere conclusions. *Deuterium Corp. v. United States*, 16 Cl. Ct. 454, 456 (1989).

There is no dispute concerning the material facts needed to decide the issues in this case: Whether plaintiff disclosed his alleged trade secrets to UNICOR in confidence; whether plaintiff claimed compensation; and whether UNICOR has a shop right to his alleged trade secrets. Most importantly, plaintiff concedes that secrecy was nonexistent and that defendant was aware of the development of the jig. Never-

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[8] Since defendant's motion to dismiss was filed with additional documents, it is treated as a motion for summary judgment under RUSCC 56. *See* RUSCC 12(b).

theless, plaintiff does raise several factual concerns: That UNICOR was unsuccessful in developing a Kevlar cutting process; that the prison staff criticized him while he was working on his jig; that a prison official told plaintiff that jobs would be lost if the jig failed; and, that plaintiff was disciplined when he attempted to sell his jig in violation of prison regulations. However, these allegations are irrelevant in analyzing the controlling questions in this case regarding the law of trade secrets and implied-in-fact contracts. Consequently, the court finds that summary judgment is appropriate here.[9]

II.

Fifth Amendment Taking

Plaintiff contends that defendant's use of his unpatented invention constitutes a compensable taking under the Fifth Amendment. Before there can be a Fifth Amendment taking, plaintiff must have a property interest in the thing that is the subject of the taking. Therefore, the question is whether plaintiff had a property interest in the unpatented invention.

Plaintiff alleges that the unpatented invention is a trade secret. "The threshold issue in all trade secret cases is . . . whether in fact, there is a trade secret to be misappropri-

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[9] The court notes that Defendant's Proposed Findings of Uncontroverted Facts consists of undisputed facts. Plaintiff's Statement of Genuine Issues of Material Facts In Dispute does not identify any of the government's proposed facts as being in dispute. See RUSCC 56(d)(2). Moreover, plaintiff's Statement of Genuine Issues and his affidavit do not contradict the defendant's proposed facts in any material respect.

ated." *Frodge v. United States*, 204 Ct. Cl. 812 (1974). A trade secret is protected by the Fifth Amendment taking clause to the extent that there is a property right in the trade secret. *Ruckelshaus v. Monsato, Co.*, 467 U.S. 986, 1003-04 (1984). "[P]roperty interests . . . are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law." *Id.* at 1001. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974) (states may protect trade secrets to the extent that state law does not conflict with federal patent laws). Here, Texas law is applicable since all relevant facts concern Texas, such as where the jig was created, tested and used.

A. *Definition of Trade Secret*

Texas, like many states, adopts the Restatement of Torts, § 757, comment b (1939), definition of a trade secret. A trade secret can consist of:

> [A]ny formula, pattern, *device* or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a *process of manufacturing*, treating or preserving materials, a pattern for a machine or other device, or a list of customers.

American Precision Vibrator Co. v. National Air Vibrator Co., 764 S.W.2d 274, 276 (Tex. 1989) (emphasis added). "Before something can be termed a 'trade secret,' there must be a substantial element of secrecy." *Id.* In addition, the element of secrecy is necessary for the maintenance of the trade secret. *Id.*

Although it is undisputed that plaintiff did not keep his jig secret from UNICOR officials, plaintiff contends that his failure to do so should be excused because he is in prison. However, plaintiff has failed to cite any authority, except for an implied confidential relationship theory, which may allow this court to excuse this state law requirement by virtue of the fact that plaintiff is a prisoner.[10]

B. *Implied Confidential Relationship*

Although plaintiff disclosed his jig to defendant, he contends that this disclosure was protected by a confidential relationship between the parties.[11] If a confidential relationship existed when the trade secret was disclosed, defendant had a duty not to use or further disclose the secret. *American Precision Vibrator Co.* at 276. In this case, plaintiff admits that there was no express confidential relationship, but alleges that an implied confidential relationship was created when plaintiff requested to be compensated.[12]

Whether an implied confidential relationship exists is a factual question. *J.C. Kinley Co. v. Haynie Wire Line Serv., Inc.*, 705 S.W.2d 193, 196 (Tex. 1985). However,

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[10] In addition, defendant contends that plaintiff extinguished his property right in the trade secret when he attached drawings of the jig to the original complaint. Although plaintiff admits that drawings of the jig were attached to the complaint, he states that the disclosure took place well after defendant's alleged taking occurred. In light of our disposition of this case on other grounds, we need not reach these contentions.

[11] To the extent that plaintiff's arguments allege a violation of a confidential relationship which suggests a cause of action sounding in tort, *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953), this court has no jurisdiction. 28 U.S.C. § 1491(a)(1) (1982); *see Eastport Steamship Corp. v. United States*, 178 Ct. Cl. 599, 372 F.2d 1002 (1967).

[12] Plaintiff's affidavit p. 5.

the absence of an express agreement establishing a duty of confidentiality is not a bar to the finding of an implied agreement; it is one factor to be considered. Other factors include the nature and extent of security precautions and the degree to which the trade secret has been placed in the public domain by plaintiff. *Id.*

Plaintiff claims to have effectively requested compensation when the jig was being tested, by informing the superintendent of the plant, that he, plaintiff, was in the process of obtaining a patent. In support of this position, plaintiff cites to *Schreyer v. Casco Prods., Corp.*, 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952). In Schreyer, the plaintiff, who was in the process of applying for a patent, disclosed information to the defendant during negotiations of a licensing agreement. The disclosure was restricted to the use of the information in the negotiations, and the court held that due to the negotiations, an implied confidential relationship had been created. *Id.* at 924. That is not the situation in this case. Plaintiff has not contended that there were any negotiations between himself and defendant. The allegation in plaintiff's affidavit, that the superintendent told him that he no longer owned the jig, demonstrates this. Consequently, plaintiff's disclosure could not have occurred as in *Schreyer*. Therefore, no implied confidential relationship was created, and *Schreyer* is distinguishable.

Furthermore, the court notes defendant's argument that a confidential relationship generally arises when one party places its trust and confidence in another, *United States v. Reed*, 601 F.Supp. 685, 705-08, (S.D.N.Y.), *rev'd on other grounds*, 773 F.2d 477 (2nd Cir. 1985), and that this is not the relationship here. As the defendant expresses it: "Trust and confidence are not hallmarks of a relationship between a prisoner and his jailer." Plaintiff fails to estab-

lish that he had any type of confidential relationship with UNICOR. To the contrary, he contends that the prison staff "openly criticized" him and that he believed that he could not "negotiate a confidentiality agreement with UNICOR."

"If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information, or otherwise publicly disclose the secret, his property right is [completely] extinguished." *Ruckelshaus*, 467 U.S. at 1002. Since plaintiff disclosed his jig to defendant without either an express or implied confidential relationship, whatever property interest plaintiff had in it, if any, was extinguished. Consequently, no Fifth Amendment taking has occurred. Therefore, since plaintiff has failed to show that he has a protectable trade secret, the granting of summary judgment on this claim is appropriate.

C. *Shop Right*

Assuming *arguendo*, that plaintiff has a property interest in the trade secret, the court finds that defendant has a shop right which permits the defendant to use the invention without charge, as if a license were granted. *LeFiell v. United States*, 162 Ct. Cl. 865, 869 (1963) ("the mere fact that an employer uses the time and facilities of his employer in developing an invention does not entitle the employer to ownership rights in the employee's invention. In that event, where it appears from the facts that the employer made a substantial investment in the invention and that the inventor consented to the employer's use thereof, the employer would have a shop right to the patent; i.e., a right to use the invention in his business"). *See Gill v. United States*, 160 U.S. 426, 435 (1896). The fact that the employer has a substantial investment in the invention because it has expended money, property or services on the invention is an indication that the inventor acquiesced. *Id.*

It is not disputed that plaintiff worked in the prison shop where he was employed to cut Kevlar, and used, at least defendant's scrap materials, exclusively in creating jig models.[13] Plaintiff submitted his jig to his shop foreman, and allowed the jig to be used in the prison shop. After testing the wooden model of plaintiff's jig, defendant had the jig reproduced in metal form and began using it at the prison with plaintiff's knowledge. The court infers that the reproduction in metal form constitutes further testing and development of the jig. In *Wommack v. Durham Pecan Co.*, 715 F.2d 962, 971 (5th Cir. 1983), a shop right existed in a process conceived and reduced to practice by an employee at home; the employer's contribution was the commercial testing by the employer of the employee's idea. The court finds the UNICOR's contribution in testing the commercial application of the jig was significant as that in *Wommack*. Defendant invested about $20,000.00[14] in constructing the jig in metal, which this court construes to be a substantial amount.[15] In addition, in the shop, plaintiff redesigned the jig to improve its performance. Not until several months after he allowed the jig to be used in the shop did plaintiff first seek compensation from the defendant. All of these facts suggest that the jig was developed with substantial

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[13] In a prison, it is hard to imagine how plaintiff could construct anything like a cutting jig without using at least some of defendant's materials and supplies. In addition, the court notes that the personal possessions listed in plaintiff's prison inventory could not readily be used by themselves to construct and test a cutting jig.

[14] In *Melin v. United States*, 201 Ct. Cl. 748, 757, 478 F.2d 1210 (1973), an employer's contribution of machinery and parts of a value of $5,000.00 was found sufficient to generate a shop right.

[15] The creation of the jig in metal form by defendant and its subsequent use in actual production was the critical final test which proved the jig's viability. Furthermore, plaintiff did not attempt to sell the jig process to Gentex until it had been tested in metal form at the prison and plaintiff could cite its performance there. See *supra* no.6.

investment by defendant and that plaintiff consented to defendant's use.

However, plaintiff denies that he consented to defendant's use. Plaintiff contends that he objected to defendant's testing of the jig by telling the superintendent that he was in the process of obtaining a patent. Plaintiff claims that this notification by itself precludes a shop right, citing *Lone Star Steel Co. v. Wahl*, 636 S.W.2d 217 (Tex. App. 1982). However, the court in *Lone Star* held that a shop right did not exist when an employee refused to sign an employment contract amendment which would have assigned his patent rights to his employer for no additional consideration. *Id.* at 220. Consequently, plaintiff's statement, without a request for compensation, nor without any other activity, is not sufficient. The court finds that a shop right exists in favor of defendant.

III.

Implied-in-Fact Contract

Plaintiff also argues that there was an implied-in-fact contract between the parties in which defendant agreed to compensate plaintiff for the use of his jig. An implied-in-fact contract requires a showing of mutual intent, lack of ambiguity in offer and acceptance, and authority of the government representative upon whose conduct plaintiff is relying to bind the government. *Pacific Gas & Elec. Co.*, 3 Cl. Ct. at 338-39.

In this case, plaintiff has failed to allege any facts from which this court could imply that there was a mutual intent between the parties to compensate plaintiff. Plaintiff contends that he requested compensation by informing the

superintendent that he was in the process of obtaining a patent. Assuming that this is sufficient to constitute an offer, the superintendent's response that plaintiff no longer owned the jig,[16] could in no way be deemed an acceptance. Therefore, even in light of plaintiff's facts, a determination cannot be made that there was a mutual intent to compensate him.

Furthermore, assuming that there was mutual intent, plaintiff has not alleged the authority of any government representative upon whose conduct he relied. Indeed, plaintiff has not indicated the identity of any person, other than the superintendent, with whom he even remotely discussed compensation. In addition, plaintiff has failed to argue or allege facts to indicate that the superintendent had any authority to bind defendant. *Pulaski Cab Co. v. United States*, 141 Ct. Cl. 160, 165, 157 F. Supp. 955 (1958) ("[a]n agent without authority so to do cannot make the United States liable for its contracts"); *Radioptics, Inc. v. United States*, 223 Ct. Cl. 594, 612, 621 F.2d 1113 (1980).

Plaintiff, in opposing summary judgment, may not rely upon unsubstantiated conclusions, but must make some showing of the essential elements of his case. *Deuterium*, 16 Cl. Ct. at 458. This burden has not been met. Plaintiff has merely relied on conclusionary statements that an implied-in-fact contract existed without alleging any facts to support this position. Furthermore, to recover under a wrongful taking claim, in addition to showing that he has a protectable trade secret, plaintiff must show "that the parties entered into a contract, either express or implied in fact, in which defendant agreed not to use or disclose plaintiff's design . . . [and] that defendant has breached the parties

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[16] Plaintiff's affidavit p. 5.

contractual agreement." *Frodge* 204 Ct. CL. at 812. This plaintiff has failed to show. Therefore, the granting of summary judgment in this case is appropriate.

Conclusion

For all the above reasons, defendant's motion for summary judgment is granted. Accordingly, the Clerk is directed to dismiss plaintiff's complaint. No costs.

BOHDAN A. FUTEY
Judge

COURT OF APPEALS OPINION
[NOVEMBER 15, 1991]

IN THE UNITED STATES COURT OF APPEALS

FEDERAL CIRCUIT

No. 90-5129

EARL JASON LARISCEY,

Plaintiff-Appellant,

versus

THE UNITED STATES,

Defendant-Appellee.

OPINION

(November 15, 1991)

Before NIES, Chief Judge, NEWMAN and ARCHER, Circuit Judges.

PAULINE NEWMAN, Circuit Judge.

Earl Jason Lariscey appeals the summary judgment of the United States Claims Court,[1] denying his claim for compensation for an invention made while he was an inmate of the Federal Correctional Institution in Bastrop, Texas. Mr. Lariscey states that he invented a jig and cutting device

[1] *Lariscey v. United States*, 20 Cl. Ct. 385 (1990).

and process to cut Kevlar, a high-strength material used in the manufacture of helmets by the Federal Prison Industries (UNICOR), a government corporation. Mr. Lariscey states that UNICOR took his invention without just compensation, in contravention of the Fifth Amendment of the Constitution.

Background

Mr. Lariscey's statement of facts was generally undisputed, insofar as material to the issues that were decided by the Claims Court on the government's motion for summary judgment.

Mr. Lariscey was employed by UNICOR pursuant to a federal program whereby prison inmates produce goods and provide services for government agencies. *See* 18 U.S.C. § 4121 *et seq.* Since 1978 UNICOR has manufactured military helmets at the Bastrop prison facility. Until the summer of 1986 UNICOR contracted out to the Gentex Corporation the function of precutting the Kevlar used for the helmets. UNICOR decided to bring the cutting function in-house, and in August 1986 began preparations by ordering two cutting tables, each about one hundred feet in length, some cutting knives, and various presses brought in from other plants. UNICOR also purchased a new press at a cost of about $55,000. UNICOR planned to cut the Kevlar using a die and press method, but this method, and all others tried, were unsatisfactory. UNICOR made inquiries about the purchase of sonic cutting knives, at a price of about $35,000 each, and then laser cutting knives, at a price of about $350,000 each. UNICOR did not purchase these knives, because the sonic knife was shown incapable of cutting Kevlar, and the salesman of the laser knife would not guarantee its performance.

Mr. Lariscey was assigned to the team of prison inmates working on the helmet manufacturing project. His duties were to assemble the cutting tables and install power rails for the power supply to the cutting knives. He knew of UNICOR's unsuccessful search for an effective method of cutting Kevlar. On his own initiative, working in his cell in his leisure time and using scrap material, he designed and built an effective cutting device over the course of several months. Mr. Lariscey states that the Associate Warden derided his efforts, calling him "Fred Flintstone" and suggesting that he was building rabbit boxes.

A representative of the Defense Department was scheduled to visit the Bastrop prison facility in December 1986 in connection with the helmet contract. UNICOR still had not found a suitable method for cutting Kevlar. On inquiry through his foreman as to whether his cutting device worked, Mr. Lariscey answered that it did. The Associate Warden directed him to demonstrate it. As Mr. Lariscey prepared to do so, the Associate Warden said "I hope you know what you are doing because if this doesn't work, I am gone and when I leave there will be a lot of people gone." Mr. Lariscey states that he assumed he had "no choice" when asked to demonstrate his invention.

Mr. Lariscey demonstrated his device, showing that it successfully cut Kevlar. He made some minor adjustments, and UNICOR had a machine shop reproduce the device for use in production of the helmets. Mr. Lariscey told prison officials that he intended to patent the device. He applied for an incentive award, with the recommendation of his supervisor, but UNICOR rejected the application. UNICOR removed him from his work unit and reassigned him to menial duties; Mr. Lariscey states that this was in retaliation for his insistence on compensation. He contacted the Gentex Corporation and offered to sell an interest in his

invention, but prison officials disciplined him on the ground that he was conducting a business in violation of prison regulations. He then turned to the courts.

Acting *pro se*, Mr. Lariscey filed suit in the United States Claims Court, asking for a court-appointed patent attorney. He also asked that the government be enjoined from using his invention, and that the prison authorities be enjoined from harassing him because of these events. The Claims Court dismissed the complaint on jurisdictional grounds, *Lariscey v. United States*, No. 587-87C (Cl.Ct. Jan. 29, 1988), but granted leave to file an amended complaint, as he did, asserting claims for taking of property without just compensation and for breach of an implied-in-fact contract. The government moved for summary judgment on both counts. Mr. Lariscey requested court-appointed counsel for the Claims Court action and a court-appointed patent attorney; these requests were denied by the Claims Court, *Lariscey v. United States*, No. 587-87C, 1988 WL 236366 (Cl. Ct. Mar. 14, 1988) (order), and affirmed by the Federal Circuit. *Lariscey v. United States*, 861 F.2d 1267, 8 USPQ2d 2007 (Fed. Cir. 1988).

Mr. Lariscey eventually obtained *pro bono* trial counsel in the Claims Court. However, the court denied his request for discovery and trial, and granted the government's motion for summary judgment. In brief, the Claims Court held that Mr. Lariscey had no protectable property right in his device for cutting Kevlar. The court held that he did not have a trade secret because he did not and could not keep his device secret in the prison environment. The court stated that there could not be a confidential relationship between Lariscey and prison officials -- as the government put it, "between a prisoner and his jailer" -- and therefore that any property right Lariscey may initially have had was extinguished when he demonstrated his device to prison

officials. The Claims Court held, alternatively, that even if Lariscey did have a property right in the device, UNICOR had a shop right to use it without payment. The court also held that there was no implied-in-fact contract, on the grounds that the elements of mutual intent to enter into a contract, and authority of UNICOR officials to contract with Lariscey, were lacking. This appeal followed.

Only the count relating to the asserted taking[2] was appealed. Thus we first review whether Mr. Lariscey had a property right.

Was there a property right?

The creator and builder of a machine that is not patented or otherwise divulged to the public has certain common law rights that accompany ownership of tangible personal property. *See* W.W. Allen, Annotation, *Rights and Remedies (Independently of Patent Laws) of One Who Makes an Invention or Discovery, or Conceives an Idea or Plan, as Against One Who Utilizes It Industrially or Commercially, or Discloses It, or Threatens to Do So*, 170 A.L.R. 449 (1947). *See generally* A. Carter, *The Philosophical Foundation of Property Rights* 13-24 (1989). These rights include the right to possession of the idea and its physical embodiments, the right to limit disclosure to others, and the right to contract for the terms of use by others. *See generally*, Philbrick, *Changing Conceptions of Property in Law*, 86 U.Pa.L.Rev. 691, 702 (1938) (describing property rights

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[2] U.S. Const. amend. V.:

. . . nor shall private property be taken for public use, without just compensation.

as the liberty to use, the power to alienate, and control against interference by others). The laws governing ownership and use of unpatented[3] property and unpublished information thus derive from theories of property, adapted to achieve fairness in commercial relationships, and are rooted in the common law. *See Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002-03, 104 S.Ct. 2862, 2872-73, 81 L.Ed.2d 815 (1984):

> This general perception of trade secrets as property is consonant with a notion of "property" that extends beyond land and tangible goods and includes the products of an individual's "labor and invention."

(quoting 2 W. Blackstone, *Commentaries* 405).

The law governing protection of trade secrets has developed in this common law context. There has evolved a complex of equitable and legal criteria designed to balance the protection of proprietary information against the public interest in the free flow of ideas.

A trade secret, as defined in the *Restatement*,

> may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.

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[3] Patentability and inventorship are not here at issue.

Restatement of Torts § 757, comment b (1939); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474-75, 94 S.Ct. 1879, 1882-83, 40 L.Ed.2d 315, 181 USPQ 673, 676 (1974). Because Mr. Lariscey's jig and cutting device was created, built, and used in Texas, the law of that state applies. *See American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 276, 10 USPQ2d, 1129, 1130 (Tex.Ct.App. -- Houston [1st Dist.] 1988) (applying the *Restatement*'s definition of trade secret).

In accordance with common law rights, and where no statute abrogates such rights, the creator of a device has the right to make, use, and sell it. *See* G. Rich, *The Relation Between Patent Practices and the Anti-Monopoly Laws (Part II)*, 24 J.P.O.S. 159, 166-68 (1942). The common law does not provide the right to exclude others, *see Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 35-36, 43 S.Ct. 254, 256-57, 67 L.Ed. 516 (1923), and absent the right to exclude that is granted by the patent statute, an inventor's recourse to the common law requires that the invention meet the criteria of secrecy as appropriate to the circumstances. *See* 1 R. Milgrim, *Milgrim on Trade Secrets*, § 2.01 (1987) (recognizing difficulty of formulating concise rules of trade secrecy). The foundation of trade secret law is explained in the *Restatement* as intended to protect commercial information from "competitors who do not know or use it". *Restatement*, § 757, comment b.

The government states that because the device had been seen by others than Mr. Lariscey, and was demonstrated to UNICOR without an express agreement of confidentiality, it can not be preserved as a trade secret. Mr. Lariscey responds that as a prisoner he could not hide his device, but that it was kept in his cell, thus fully concealed from competitors. Proprietary information may be divulged to others within a defined group, in an environment protected from

competitors, under circumstances that recognize its proprietary status. Indeed, a prison would appear to be ideally adapted for the maintenance of secrecy against competitors, and for limiting the group having access to the information. As discussed in *In re Innovative Construction Systems, Inc.*, 793 F.2d 875, 883, 230 USPQ 94, 100 (7th Cir. 1986), in determining the nature of the relationship among those with knowledge of a claimed trade secret, all the circumstances must be considered. Mr. Lariscey's demonstration of his working model to his employer and potential customer, UNICOR, was not a release of protected property to a competitor, or by inference or act a public disclosure. Nor was the demonstration an automatic authorization to the customer to take and use the subject of the demonstration for its own purposes. Such unauthorized use is no more justified than the procurement of the secret by improper means, an act condemned in *American Precision*, 764 S.W.2d at 277, 10 USPQ2d at 1131.

The government argues that Lariscey's failure to negotiate a confidentiality agreement was fatal to preservation of a trade secret. The pertinent inquiry, however, is whether the recipient of the information was fairly apprised that the information was deemed proprietary. From the circumstances that here existed, it is clear that UNICOR knew that Lariscey had built this device and deemed it to be his.

The government suggests that Mr. Lariscey could have kept his invention secret, even in the prison environment, in that he "could have merely kept a design of the invention only on paper", instead of building a working model. The government apparently means that by building a device that could be seen by other inmates, and was seen by demonstration to UNICOR, Lariscey lost his property rights. The construction and demonstration of a prototype does not of itself forfeit the trade secret. The surrounding circumstanc-

es control whether there was such public disclosure that defeats the requisite secrecy. *See generally Milgrim*, *supra* at § 2.04. No disclosure to the public was here made. *See*, *e.g.*, *Brown & Root, Inc. v. Jaques*, 98 S.W.2d 257, 259 (Tex. Civ. App. -- Austin 1936):

> If, however, the manufactured article itself, when sold to the public, reveals or discloses the principle or combination of parts by which such article or machine is created or manufactured, the sale thereof to the public, or the placing of same in the hands of the public, in and of itself discloses and makes public the secret by which it is created or manufactured.

The construction in the prison environment and the demonstration of a working model by Lariscey to his employer and potential customer, under the circumstances that here prevailed, was not a dedication or waiver of property rights. It was not a dedication of the information and an abandonment of ownership. Even without giving weight to the exigencies of the prison environment insofar as it affected Lariscey's negotiating posture, the precautions to protect his information from public disclosure were reasonable under the circumstances that prevailed. When property rights are at issue, the common law weighs heavily against forfeiture by implication. *See Acme Process Equipment Co. v. United States*, 347 F.2d 509, 520, 171 Ct.Cl. 324 (1965) (describing forfeiture as "the most drastic penalty known to common law").

We conclude that Mr. Lariscey had a property right in his invention, of the nature of a protectable trade secret. The Claims Court erred in holding otherwise.

Was there a taking?

The government asserts that even if Mr. Lariscey had a protectable property right, there was not a "taking" compensable under the Fifth Amendment. The government states that Mr. Lariscey voluntarily demonstrated his device, and acquiesced in its use by the government. However, these circumstances do not negate entitlement to just compensation. In *R.J. Widen Co. v. United States*, 357 F.2d 988, 993, 174 Ct.Cl 1020 (1966) our predecessor court defined the "taking" of personal property as "a direct interference with or disturbance of property rights" by the deliberate exercise of government power.

Mr. Lariscey does not now challenge UNICOR's use of his jig and cutting device for governmental purposes, subject to just compensation. The Fifth Amendment

> is designed not to limit the governmental interference with property rights *per se*, but rather to secure *compensation* in the event of otherwise proper interference amounting to a taking.

First English Evangelical Lutheran Church v. County of Los Angeles, 482 U.S. 304, 315, 107 S.Ct. 2378, 2385-86, 96 L.Ed.2d 250 (1987) (emphasis in original). *Olson v. United States*, 292 U.S. 246, 255, 54 S.Ct. 704, 708, 78 L.Ed. 1236 (1934) (where taking is properly within the power of government, just compensation must be rendered such as to place the owner of the condemned property "in as good a position pecuniarily as if his property had not been taken.")

The government argues that Mr. Lariscey lost or waived any right to compensation based on the circumstances of his demonstration to UNICOR. The argument appears to be that even if the status as a trade secret was not lost by the

demonstration, Mr. Lariscey acquiesced in UNICOR's use of the device without compensation, since he demonstrated the device without prior negotiation of terms. The government appears to equate Lariscey's acquiescence in demonstration to the intended user, with acquiescence in free use if the demonstration is successful.

The creator of a prototype device does not forfeit the possibility of payment simply by demonstration to or testing by the intended user. Nor is it unusual, even outside of a "prisoner-jailer" relationship, that the terms of payment are not negotiated until after successful demonstration to a skeptical customer. Mr. Lariscey made his wish for compensation known: he applied for an award, sought a patent attorney, argued with prison authorities, and attempted to grant a commercial license; and when these attempts failed, he sought redress from the courts. *See, e.g., Matarese v. Moore-McCormack Lines, Inc.*, 158 F.2d 631, 633-35, 71 USPQ 311, 313-14 (2d Cir. 1946) (imposing obligation of compensation on employer who knowingly used inventive ideas disclosed by employee in expectation of payment). While the government makes much of its contention that Mr. Lariscey did not advise the superintendent of his intention to seek a patent until after the successful demonstration, a fact disputed by Mr. Lariscey, this contention even if proved does not show the abandonment of property rights or waiver of compensation. Indeed, this contention supports the conclusion that Lariscey did not make UNICOR a gift of his invention, and that the government was apprised of his desire for compensation. We conclude that under the conditions of the demonstration, and the other circumstances that prevailed, UNICOR did not acquire a right of use without just compensation.

Thus, unless UNICOR had a shop right because of its employment relationship with Lariscey, there was perforce a compensable taking.

Was there a shop right?

The Claims Court held, as an alternative ground for its denial of compensation, that UNICOR had a shop right.

The general rule is that, absent contractual arrangements to the contrary, an independent discovery belongs to the employee, unless the discovery is within the scope and purpose of the employment. *See Milgrim*, *supra* at § 5.02[4][e]. The shop right is an exception to that general rule. A common law doctrine founded on equitable principles, the shop right rule allows an employer to use, without payment to the employee, an employee's invention that was made using the employer's time and/or materials, facilities, or equipment. *See Wommack v. Durham Pecan Co.*, 715 F.2d 962, 965-66, 219 USPQ 1153, 1156-57 (5th Cir. 1983) (a Texas case applying the shop right rule).

The shop right has variously been described as a form of implied license, founded on estoppel or acquiescence. *Id.* at 969-971, 219 USPQ at 1159-1161. *See generally*, C.T. Drechsler, Annotation, *Application and Effect of "Shop Right Rule" or License Giving Employer Limited Rights in Employee's Inventions and Discoveries*, 61 ALR2d 356 (1958). The rationale was explained in *Hobbs v. United States*, 376 F.2d 488, 495, 153 USPQ 378, 384 (5th Cir. 1967):

> At least two considerations underlie the shop rights doctrine. First, it seems only fair that when an employee has used his employer's time and equipment to make an invention, the employer should be able

> to use the device without paying a royalty. Second, under the doctrine of estoppel if an employee encourages his employer to use an invention, and then stands by and allows him to construct and operate the new device without making any claim for compensation or royalties, it would not be equitable to allow the employee later to assert a claim for royalties or other compensation. *See, e.g., Gill v. United States* [160 U.S. 426, 16 S.Ct. 322, 40 L.Ed. 480 (1896)].

The Court of Claims has applied a similar standard, in various contexts. In *LeFiell v. United States*, 162 Ct.Cl. 865, 869, 138 USPQ 312, 314 (1963) the court discussed shop right issues as between an inventor and the corporation of which he was president, citing the common law origins of the shop right rule, *e.g., McClurg v. Kingsland*, 42 U.S. (1 How.) 202, 11 L.Ed. 102 (1843); *Solomons v. United States*, 137 U.S. 342, 346, 11 S.Ct. 88, 89, 34 L.Ed. 667 (1890); *Gill v. United States*, 160 U.S. 426, 435, 16 S.Ct. 322, 326, 40 L.Ed. 480 (1896). The shop right rule has been applied to tangible and intangible property, including trade secrets. *See Milgrim, supra* at § 5.02[4][c], and cases cited.

It was undisputed that Mr. Lariscey was not employed to develop, invent, or improve methods for cutting Kevlar. It was undisputed that he was simply a laborer at assigned tasks; that he built the device in his cell after working hours; and that this invention was outside the scope of his employment by UNICOR. Although Mr. Lariscey knew that UNICOR had encountered problems in cutting Kevlar, and intended that his jig and cutting device be used to cut Kevlar, that does not grant the government a shop right.

Although the government argues that the scrap materials gleaned from the shop floor were government property, even if discarded, this is an insufficient basis to grant the government a shop right in the device. *See Wommack*, 715 F.2d at 967, 219 USPQ at 1158 ("A court therefore must conduct more than merely a quantitative analysis of how much of the employer's assistance was contributed to the process or during exactly what stage of development it was rendered.") The court in *Heywood-Wakefield Co. v. Small*, 87 F.2d 716, 32 USPQ 265 (1st Cir.), *cert. denied*, 301 U.S. 698, 57 S.Ct. 925, 81 L.Ed. 1353 (1937), held there was no shop right when an employee made a cardboard model of his invention at home and showed it to his employer, who with the employee's consent had a full-sized model built and tested in order to satisfy itself that the device met its needs, and where the employee's duties did not include the making of inventions. *See also Gill*, 160 U.S. at 435, 16 S.Ct. at 326 (employer's assistance "is important only as furnishing an item of evidence tending to show that the patentee consented to and encouraged [his employer] in making use of his devices").

Conclusion

We conclude that there was not a shop right in the government, that Mr. Lariscey possessed a property right in the cutting device and process, and this property was taken for governmental purposes. The case is remanded to the Claims Court for determination of just compensation.

Costs

Costs in favor of Mr. Lariscey.
REVERSED AND REMANDED.

COURT OF APPEALS ORDER DENYING PETITION FOR REHEARING [JANUARY 8, 1992]

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 90-5129

EARL JASON LARISCEY,

Plaintiff-Appellant,

versus

THE UNITED STATES,

Defendant-Appellee.

ORDER

Before NIES, Chief Judge, NEWMAN, Circuit Judge, ARCHER, Circuit Judge.

A petition for rehearing having been filed in this case, UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, denied.

The suggestion for rehearing in banc is under consideration.

The mandate will issue on January 15, 1992.

FOR THE COURT,

Dated: January 8, 1992

Francis X. Gindhart
Clerk

COURT OF APPEALS ORDER ACCEPTING SUGGESTION FOR REHEARING IN BANC [APRIL 30, 1992]

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Appeal No. 90-5129

EARL JASON LARISCEY,

Plaintiff-Appellant,

versus

THE UNITED STATES,

Defendant-Appellee.

ORDER

A suggestion for rehearing in banc having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the suggestion for rehearing in banc be, and the same hereby is accepted. The judgment entered on November 15, 1991 is VACATED, and the accompanying opinion is withdrawn. The mandate issued on January 15, 1992 is RECALLED. Additional briefing and argument are not indicated at this time.

FOR THE COURT,

Dated: April 30, 1992

Francis X. Gindhart
Clerk

COURT OF APPEALS ORDER ON REHEARING IN BANC [DECEMBER 28, 1992]

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 90-5129

EARL JASON LARISCEY,

Plaintiff-Appellant,

versus

THE UNITED STATES,

Defendant-Appellee.

ORDER

Before NIES, Chief Judge, RICH, NEWMAN, ARCHER, MAYER, MICHEL, PLAGER, LOURIE, CLEVENGER, and RADER, Circuit Judges.*

PER CURIAM.

The judgment in the above appeal is affirmed by an equally divided court.

FOR THE COURT,

Dated: December 28, 1992

Helen W. Nies
Chief Judge

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* Circuit Judge Schall took no part in the decision of this case.

COURT OF APPEALS ORDER DENYING SUGGESTION FOR REHEARING IN BANC [MARCH 3, 1993]

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Appeal No. 90-5129

EARL JASON LARISCEY,

Plaintiff-Appellant,

versus

THE UNITED STATES,

Defendant-Appellee.

REVISED

ORDER

Before NIES, Chief Judge, RICH, Circuit Judge, NEWMAN, Circuit Judge, ARCHER, Circuit Judge, MAYER, Circuit Judge, MICHEL, Circuit Judge, PLAGER, Circuit Judge, LOURIE, Circuit Judge, CLEVENGER, Circuit Judge and RADER, Circuit Judge.

A petition for rehearing having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate will issue on March 10, 1993.

FOR THE COURT,
FRANCIS X. GINDHART,
CLERK

Dated: March 3, 1993

by _____
Diane M. Frye
Chief Deputy Clerk

EXCERPT FROM THE FIFTH AMENDMENT TO THE FEDERAL CONSTITUTION

The Takings Clause (U.S. Const. amend. v):

> ... nor shall private property be taken for public use, without just compensation.

EXCERPTS FROM RESTATEMENT OF TORTS

RESTATEMENT OF TORTS (1939)

§ 757. LIABILITY FOR DISCLOSURE OR USE OF ANOTHER'S TRADE SECRET--GENERAL PRINCIPLE.

One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if

(a) he discovered the secret by improper means, or

(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

(c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or

(d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

Comment:

b. Definition of trade secret. A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. It differs from other secret information in a business (see § 759) in that it is not

simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialized customers, or a method of bookkeeping or other office management.

Secrecy. The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy. Others may also know of it independently, as, for example, when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information. An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is

known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Novelty and prior art. A trade secret may be a device or process which is patentable; but it need not be that. It may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make. Novelty and invention are not requisite for a trade secret as they are for patentability. These requirements are essential to patentability because a patent protects against unlicensed use of the patented device or process even by one who discovers it properly through independent research. The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret.

* * *

EXCERPTS FROM BUREAU OF PRISONS REGULATIONS
[28 C.F.R. § 345 et seq.]

PART 345--WORK AND COMPENSATION

§ 345.10 Purpose and scope.

It is the policy of Federal Prison Industries, Inc. (UNICOR) to provide work to inmates confined in a federal institution. This work is designed to allow the inmate the opportunity to acquire the knowledge, skill, and work habits which will be useful when released from the institution. There is no requirement that industries pay inmates for work in an industrial assignment. 18 U.S.C. 4126, however, provides for discretionary compensation to inmates working in industries.

PART 533--INMATE PROPERTY

§ 553.10 Purpose and scope.

It is the policy of the Bureau of Prisons that an inmate may possess only that property which the inmate is authorized to retain upon admission to the institution, which is issued while the inmate is in custody, which the inmate purchases in the institution commissary, or which is approved by staff to be mailed to, or otherwise received by an inmate. These rules contribute to the management of inmate personal property in the institution, and contribute to a safe environment for staff and inmates by reducing fire hazards, security risks, and sanitation problems which relate to inmate personal property. Consistent with the mission of

the institution, each Warden shall identify in writing that personal property which may be retained by an inmate.

§ 553.12 Contraband.

(a) Staff shall consider an item possessed by an inmate to be contraband unless the inmate was authorized to retain the item upon admission to the institution, the item was issued by authorized staff, purchased by the inmate from the commissary, or purchased or received through approved channels (to include approved for receipt by an authorized staff member or authorized by institution guidelines).

PART 545--WORK AND COMPENSATION

§ 545.20 Purpose and scope.

(a) The Bureau of Prisons operates an inmate work program within its institutions. To the extent practicable, the work program (1) reduces inmate idleness, while allowing the inmate to improve and/or develop useful job skills, work habits and experiences that will assist in post-release employment; and (2) ensures that activities necessary to maintain the day-to-day operation of the institution are completed. Sentenced inmates who are physically and mentally able to work are required to participate in the work program. When approved by the Warden or designee, educational or vocational training may be substituted for all or part of the work program.

(2)

Supreme Court, U.S.
FILED
JUN 02 1993
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No. 92-1682

In the Supreme Court of the United States

OCTOBER TERM, 1992

EARL JASON LARISCEY, PETITIONER

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

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QUESTION PRESENTED

Whether petitioner possessed a trade secret cognizable as a property right under Texas law.

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In the Supreme Court of the United States

OCTOBER TERM, 1992

No. 92-1682

EARL JASON LARISCEY, PETITIONER

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

OPINIONS BELOW

The en banc order of the court of appeals (Pet. App. 39A) is reported at 981 F.2d 1244. The panel opinion of the court of appeals (Pet. App. 18A-31A) is reported at 949 F.2d 1137. The opinion of the Court of Federal Claims (Pet. App. 2A-16A) is reported at 20 Cl. Ct. 385.

JURISDICTION

The judgment of the court of appeals was entered on December 28, 1992. On March 9, 1993, the Chief Justice extended the time within which to file a petition for a writ of certiorari to and including April 27, 1993, and the petition was filed on April 22, 1993. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

While incarcerated at the Federal Correctional Institution at Bastrop, Texas, petitioner filed suit against the United States. He claimed that the Bureau of Prisons and the Federal Prison Industries (UNICOR), a government-owned corporation that employs federal prisoners, took his trade secret, thus entitling him to compensation under the Just Compensation Clause of the Fifth Amendment to the United States Constitution. The Claims Court (now the Court of Federal Claims) granted the government's motion for summary judgment. Pet. App. 2A-16A. A panel of the United States Court of Appeals for the Federal Circuit reversed, *id.* at 18A-31A, but the panel's opinion was subsequently withdrawn and its judgment vacated, *id.* at 36A-37A. The en banc court of appeals then affirmed the judgment of the Claims Court by an equally divided court. *Id.* at 39A.

1. Petitioner was incarcerated at the Federal Correctional Institution at Bastrop, Texas, and was employed there by UNICOR in the manufacturing of helmets. UNICOR had manufactured helmets for the military at the Bastrop facility since 1978. Until 1986, UNICOR contracted out the function of pre-cutting Kevlar, a material used to produce the lining of helmets. At that time, UNICOR decided to bring that function in-house. In late 1986, petitioner, using scrap materials from the shop floor, conceived and designed a jig and cutting process to cut Kevlar. In December 1986, petitioner demonstrated the jig to his foreman. Between January and March 1987, UNICOR began to use petitioner's jig. An outside contractor then reproduced the jig in metal form. Pet. App. 2A-4A.[1]

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[1] As this case arises out of our motion for summary judgment, the statement of facts in this paragraph accepts the allegations in petitioner's affidavit as true.

2. Petitioner filed suit against the United States, claiming (among other things) that he was entitled to compensation under the Just Compensation Clause of the Fifth Amendment. The Claims Court granted the government's motion for summary judgment. Pet. App. 2A-16A. It held that petitioner had not possessed a trade secret cognizable as a property right under Texas law, and therefore did not possess a property interest protected by the Fifth Amendment. Pet. App. 8A-12A.

3. A panel of the Court of Appeals reversed and entered judgment for petitioner. Pet. App. 18A-31A. It held that petitioner possessed a trade secret under Texas law. The court of appeals then withdrew the opinion of the panel and vacated the panel's judgment. *Id.* at 36A-37A. An equally divided en banc court subsequently affirmed the judgment of the Claims Court. *Id.* at 39A.

ARGUMENT

Petitioner contends (Pet. 13-19) that the courts below erred in concluding that he had no property interest protected by the Just Compensation Clause of the Fifth Amendment. That contention is erroneous and presents no issue warranting review by this Court.

1. "Property interests * * * are not created by the Constitution. Rather, they are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law." *Ruckelshaus* v. *Monsanto Co.*, 467 U.S. 986, 1001 (1984) (internal quotation marks omitted). Thus, a trade secret cognizable as a property right under state law is protected by the Fifth Amendment. 467 U.S. at 1003-1004.

This case presents the narrow question whether petitioner had a trade secret cognizable as a property right under Texas law. The Claims Court held that he did not, and that judgment was affirmed by the Federal Circuit. The lower courts' interpretation and application of state

law does not warrant review by this Court. See, *e.g.*, *Virginia* v. *American Booksellers Ass'n*, 484 U.S. 383, 395 (1988); *Bishop* v. *Wood*, 426 U.S. 341, 345-346 (1976). In any event, the conclusion of the courts below is correct.

As the Claims Court recognized, Texas law requires that there be "a substantial element of secrecy" for a trade secret to exist. Pet. App. 9A (internal quotation marks omitted); see *American Precision Vibrator Co.* v. *National Air Vibrator Co.*, 764 S.W.2d 274, 276 (Tex. Ct. App. 1988). Here, "it is undisputed that [petitioner] did not keep his jig secret from UNICOR officials." Pet. App. 10A.[2]

To be sure, as the Claims Court noted, Pet. App. 11A, disclosure of information does not mean that a trade secret has been foregone if the disclosing party has a confidential relationship with the party to whom the information is disclosed. See *American Precision Vibrator Co.*, 764 S.W.2d at 276. In this case, however, petitioner admitted that "there was no express confidential relationship" between UNICOR and him. Pet. App. 10A. In addition, the Claims Court correctly found that there was no implied confidential relationship. *Id.* at 10A-12A. Petitioner did not contend "that there were any negotiations between himself and [UNICOR]" regarding the invention. *Id.* at 11A. Moreover, because "trust and confidence are not hallmarks of a relationship between a prisoner and his jailer," *ibid.*, a confidential relationship plainly cannot be inferred from the fact that petitioner was a prisoner and worked for UNICOR in

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[2] This case does not raise the question of the degree to which Texas law would protect trade secrets that were not voluntarily disclosed by a prisoner to prison officials, or the degree to which that question would be affected by rules and practices in the federal prison system. See *Ruckelshaus* v. *Monsanto Co.*, 467 U.S. at 1005-1010.

that status. The fact-bound determination of the lack of a confidential relationship and the resulting lack of a trade secret under Texas law, does not warrant review.[3]

2. Nothing in the decision below warrants review by this Court. The Claims Court simply found that petitioner had no property right under Texas law, and thus no property interest protected by the Just Compensation Clause. That ruling is of limited significance: It involves application of settled principles of one State's law to the unusual facts of this case;[4] it does not conflict with any decision of this Court or of any other court of appeals; and, because the Federal Circuit's order affirms the Claims Court by an equally divided court, it is of no precedential value even in that court, as petitioner concedes (Pet. 14). Further review by this Court is therefore unwarranted.

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[3] Even if petitioner were right that he had a trade secret, he still would have to prove that UNICOR did not have a "shop right" permitting it to use petitioner's invention without charge. The shop right rule "allows an employer to use, without payment to the employee, an employee's invention that was made using the employer's time and/or materials, facilities, or equipment." Pet. App. 29A; see *Wommack* v. *Durham Pecan Co.*, 715 F.2d 962, 965-966 (5th Cir. 1983).

[4] As far as we are aware, this is the only case in which a prisoner has asserted a Fifth Amendment claim based on state law regarding trade secrets. Contrary to petitioner's contention (Pet. 12, 15-16), this case presents no issue concerning trade secrets furnished to a federal agency by government contractors or regulated companies, whose relationship with the federal government is far different from that of a federal prisoner. Moreover, the ruling in this case turns on the specific circumstances of petitioner's work for UNICOR at the Federal Correctional Institution at Bastrop. Neither court below purported to make findings of a more general nature that would concern others who deal with the federal government.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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JUNE 1993

Supreme Court, U.S.
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(3)

No. 92-1682

IN THE
SUPREME COURT OF THE
UNITED STATES
OCTOBER TERM, 1992

EARL JASON LARISCEY,

Petitioner,

v.

THE UNITED STATES,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITIONER'S REPLY BRIEF

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PETITIONER'S REPLY BRIEF

The Government misportrays this case in four material respects.

1. This case does not present a question of state law. Gov't Br. at 3-4. Rather, the critical and dispositive issue presented for review, entirely sidestepped by the Government's brief, is whether the Federal Government can avoid liability under the Takings Clause by compelling a person to disclose his trade secret and thereafter arguing that this very same disclosure has extinguished the property interest underlying the trade secret. Pet. at i, 13.[1] This

[1] Because petitioner is seeking review of the Claims Court's grant of summary judgment to the Government, all facts must be viewed in the light most favorable to petitioner. Pet. App. 7A. Given this procedural posture, the Government cannot dispute the fact that it appropriated Mr. Lariscey's manufacturing process by "direct[ing]" Mr. Lariscey to demonstrate it. Supp. App. at 4A; Pet. at 9 n.8; Pet. App. 20A. The Government's suggestion that Mr. Lariscey "voluntarily" conveyed his trade secret to the Government (Gov't Br. at 4 n.2) simply ignores the record. Mr. Lariscey's affidavit, as filed with the Claims Court, is attached for convenience as a Supplementary Appendix ("Supp.

important federal issue no more involves the "application of state law" (Gov't Br. at 3-4) than any Takings Clause action, *each* of which involve property interests defined in the first instance by state law. *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1001 (1984). But no aspect of Texas law is unique or disputed here,[2] and the case turns on whether certain coercive Federal Government action can effectively preempt the trade secret laws of *any* state and, in doing so, render the Takings Clause ineffective. This case is no different, in this respect, than *Monsanto*, 467 U.S. 986, which also involved an uncompensated Federal Government taking of trade secrets. *Id.* at 1010-13. Moreover, the issue presented here is *precisely* the one reserved for another day in *Dow Chemical Co. v. United States*, 476 U.S. 227 (1986), which, as here, involved a Federal Government seizure of trade secrets. *Id.* at 232; *see* Pet. at 2-3, 12-13. The Court in *Dow* suggested that where such a seizure has occurred, the Takings Clause "might" provide compensation for any subsequent public use of the trade secrets so seized, but left the matter unresolved. *Id.* at 232. The issue is now squarely presented here. Pet. at 12-13.

2. The facts of this case are not "unusual" (Gov't Br. at 5) in any material sense. The Claims Court ruling will affect the trade secret rights of any person or company compelled by law or commercial necessity to disclose its trade secrets to the Government. This includes Government contractors, which must submit trade secrets to the Government in order to sell their goods and services. *In*

App.").

[2] The Texas law of trade secrets does not differ, as material here, to that of any state, and is the same as the law at issue in *Monsanto*. *Compare*, 467 U.S. at 1001 *with* Pet. App. 9A.

re Chromalloy Division, 56 Comp. Gen. 538 (1977). This includes regulated industries, which must submit trade secrets to comply with Federal health, safety and economic regulations. *See Monsanto,* 467 U.S. at 994-96. This includes persons or companies subject to a civil or criminal investigation, in the course of which trade secrets are seized by the Government. *See Dow*, 476 U.S. at 232. Put simply, under the Claims Court opinion the Government may exercise its otherwise lawful authority to deprive *any* person or business of the "secrecy" necessary to maintain a trade secret and thereby strip away state law protections afforded such property *and* avoid liability under the Takings Clause.

3. The Government's suggestion that review is not appropriate because the Claims Court decision "does not conflict with [that of] any other court of appeals" (Gov't Br. at 5) is perplexing. The Claims Court has *exclusive* jurisdiction over Takings Clause actions exceeding $10,000. Pet. at 5 n.1. No direct "conflict" between circuits likely will arise. The Federal Circuit was created to ensure "national uniformity" with respect to matters exclusively within its jurisdiction. Pet. at 5 n.2. But here, on a matter within its exclusive jurisdiction and of national importance, it became deadlocked, rendering review by this Court imperative.[3]

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[3] Two additional points raised by the Government require only brief responses. First, the Government's discussion of Mr. Lariscey's "confidential relationship" claim is not pertinent (Gov't Br. at 4-5); the claim is relevant only if it is determined that Mr. Lariscey voluntarily disclosed his trade secret to the Government. *See* Pet. App. 46A. Given the procedural posture of the case, however, the Court must assume that disclosure was involuntary. *See supra* n. 1. Second, the Government's "shop right" defense (Gov't Br. at 5 n.3) is not relevant here because, as the Government conceded at oral argument to the Federal Circuit, there is a genuine issue of material fact that precludes

4. Finally, the Government's characterization of the case as having "limited significance" (Gov't Br. at 5) is less than convincing. The Government previously sought *in banc* review in the Federal Circuit on the basis that the case presented "precedent-setting questions of exceptional importance" and had "far-reaching implications."[4] The Federal Circuit agreed with this view in accepting the suggestion for rehearing *in banc*. Fed. Cir. R. 35(a). While the Government understandably views the Federal Circuit's subsequent split decision (5-5) as a victory meriting a change in its position, this fractured result hardly supports the argument that the case no longer merits a coherent resolution. The issue presented here, and foreshadowed in *Dow*, remains important nationally and, because of the split within the Federal Circuit, only this Court can decide it.

The petition for writ of certiorari should be granted.

Respectfully submitted,

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June 7, 1993

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a summary finding in its favor on this defense. Pet. at 9 n.9.

[4] Suggestion for Rehearing In Banc at ii (Dec. 20, 1991); Pet. at 11 n.11.

SUPPLEMENTARY APPENDIX

IN THE UNITED STATES CLAIMS COURT

EARL JASON LARISCEY, Plaintiff	§	
	§	
vs.	§	Case No. 587-87C
	§	
UNITED STATES OF AMERICA Defendant.	§	

AFFIDAVIT OF EARL JASON LARISCEY

Earl Jason Lariscey personally appeared before me, the undersigned officer duly authorized to administer oaths, and attested that he is competent to testify and that the following facts are based upon his personal knowledge.

I.

At all times relating to the above-referenced lawsuit, I was an inmate at the Federal Correctional Institute at Bastrop, Texas. I was employed by UNICOR under a program authorized by federal regulations. Pursuant to those regulations, UNICOR provides goods and services to various government agencies.

II.

I had an excellent employment record with UNICOR.

III.

Since 1978, UNICOR has manufactured helmets for the military at its Bastrop facility. Until the summer of 1986, UNICOR contracted out to the Gentex Corporation the function of pre-cutting the kevlar used to

manufacture the helmets. During that summer, UNICOR became dissatisfied with Gentex and decided to bring the kevlar cutting function *in-house*.

IV.

In August 1986, UNICOR made specific preparations to handle the kevlar cutting in-house. UNICOR ordered two cutting tables approximately 100 feet each in length and some cutting knives. Various presses were brought in from other plants and a new press was purchased at an approximate cost of $55,000.

V.

Initially, UNICOR planned to cut kevlar using a die and press method. This method proved unsuccessful for a number of reasons. First, UNICOR's lay-up was different and required different kinds of cuts. Second, the presses had a tendency to bind the material together instead of making a clean cut. Third, the dies were prohibitively expensive and none could be developed that would withstand the pressure necessary to cut the material. Finally, the presses were incapable of cutting an amount of material sufficient to meet UNICOR's needs.

VI.

UNICOR next tested a sonic-cutting knife. That item would have cost approximately $35,000. Despite assurances from the salesman that it would cut 30-40 layers of material at one time, the sonic-cutting knife was incapable of cutting even a single layer of kevlar.

VII.

UNICOR then made inquiries regarding the purchase of laser-cutting knives. The approximate purchase price for each knife was $350,000. Therefore, the government apparently was prepared to spend several hundred thousand dollars to obtain an effective process for cutting kevlar.

VIII.

Assuming that each laser-knife was capable of cutting five layers of material at one time, UNICOR would have needed two laser-cutting knives to meet its production needs. Ultimately the government declined to purchase the knives because the salesman could not guarantee that they would cut sufficient material to meet UNICOR's production demands.

IX.

Because of my excellent work history, I had been assigned to the team of inmates assembled by UNICOR to cut kevlar. My job duties included assembly of the cutting tables and installation of power rails for the supply of power to cutting knives on the tables.

X.

I was not employed by UNICOR to develop a new method for cutting kevlar. I did so on my own initiative after observing UNICOR's initial, unsuccessful attempts to develop an effective cutting method.

XI.

Using scrap materials from the shop floor, I designed the jig to cut kevlar in my cell on my own time and without the aid of other inmates. The only assistance I received was some guidance (over the telephone) from my sister and brother-in-law, who operate a manufacturing plant in Georgia.

XII.

Because I worked in an open cell without privacy, I was unable to hide my project from UNICOR officials. In fact, the prison staff, including the Associate Warden Wendell Smith, instead of offering encouragement or advice, openly criticized my efforts. He called me Fred Flinstone and sarcastically suggested that I was building rabbit boxes. The officials knew, however, that I was spending my leisure time over the course of several months attempting to develop an effective method for cutting kevlar.

XIII.

In December 1986, a representative from the Department of Defense was schedule to visit Bastrop to examine the cutting process. This representative had to determine whether the process met specifications for UNICOR's new contract with the military for the manufacture of helmets.

XIV.

Approximately one week prior to the scheduled visit of the Department of Defense representative, Wendell Smith, having failed to find a suitable method for cutting the kevlar, turned to me as a last resort. My foreman, Carlos Cruz, asked me if my invention would work. I told him it would and I was directed to demonstrate the jig and cutting process. Just as I was prepared to show how the jig and cutting process worked, Wendell Smith stated that "I hope you know what you are doing, because if this doesn't work, I am gone and when I leave there will be a lot of people gone...".

XV.

UNICOR did not ask me if I would be willing to submit the invention for evaluation. Thus, I assumed that I had no choice but to submit my idea to the government for testing and evaluation.

XVI.

In view of my circumstances, I did not think I could negotiate a confidentiality agreement with UNICOR. However, I made it clear that I expected to be compensated for the government's use of the jig and cutting process. When UNICOR first tested the idea, I informed Jack Looney, superintendent of the plant, that I was in the process of obtaining a patent on the jig and cutting process. Looney told me that the invention no longer belonged to me and that I had nothing to do with the jig and cutting process.

XVII.

My idea worked and UNICOR hired an outside machine shop to reproduce my jig in metal form.

XVIII.

UNICOR has used the process successfully since that time. In fact, UNICOR's profits from its helmet manufacturing enterprise have increased.

XIX.

I have never acquiesced to UNICOR's use of the jig and cutting process. I have asserted my right to compensation from the very first time that the invention was tested. I even attempted to hire an attorney to obtain a patent. I also applied for an incentive award upon the recommendation of my supervisor, but UNICOR rejected my application.

XX.

UNICOR has harassed me and reassigned me to perform menial duties in retaliation for the assertion of my rights. When I attempted to contact Gentex Corporation to discuss the sale of my property to that company, UNICOR disciplined me. The UNICOR officials claimed that I was "conducting a business" in violation of prison regulations.

XXI.

All of my attempts to obtain compensation for my invention have been frustrated. Therefore, I filed this lawsuit.

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EARL JASON LARISCEY

STATE OF GEORGIA §
§
COUNTY OF BUTTS §

I HEREBY CERTIFY that on this 25th day of July, 1989, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Earl Jason Lariscey and did acknowledge the foregoing to be his own act and deed.

IN WITNESS WHEREOF, I hereunto set my hand and affix by notarial seal.

_____
Notary Public

My commission expires: